

Insight Catastrophe Group, LLC and Subsidiaries

**Consolidated Financial Statements
and Supplementary Information**

Years Ended December 31, 2017 and 2016



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Independent Auditors' Report

Members and Board of Directors
Insight Catastrophe Group, LLC and Subsidiaries
Jersey City, New Jersey

We have audited the accompanying consolidated financial statements of Insight Catastrophe Group, LLC and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with GAAP.

Insight Catastrophe Group, LLC and Subsidiaries
Notes to Consolidated Financial Statements

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The following is presented on pages 16 through 22 for the purpose of additional analysis and is not a required part of the basic consolidated financial statements and is collectively referred to as the "Supplementary Schedules":

- Consolidating Balance Sheets as of December 31, 2017 and 2016
- Consolidating Statements of Operations for the years ended December 31, 2017 and 2016
- Consolidating Statement of Changes in Members' Equity for the years ended December 31, 2017 and 2016.
- Supplemental Schedule of GAAP and Section 704(b) Book Basis Members' Equity Accounts as of December 31, 2017 and 2016.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, such information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

Dixon Hughes Goodman LLP

Charlotte, North Carolina
May 3, 2018

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Balance Sheets
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,841,423	\$ 5,229,439
Accounts receivable	6,069,602	4,803,270
Current portion of installment note receivable	-	14,850
Other receivables	-	28,992
Other current assets	872,478	322,720
Due from related parties	357,264	-
Cash held for others	8,046,429	4,301,041
Total current assets	<u>18,187,196</u>	<u>14,700,312</u>
Software development costs, net	2,339,894	784,220
Property and equipment, net	1,218,932	1,213,915
Notes receivable - related parties	969,910	805,183
Other noncurrent assets	663,061	246,945
Total assets	<u>\$ 23,378,993</u>	<u>\$ 17,750,575</u>
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Obligation under capital lease, current portion	\$ -	\$ 23,954
Accounts payable	1,357,058	1,257,287
Commissions and fees payable	3,577,034	2,950,862
Other accrued expenses	1,388,518	447,617
Accrued bonus compensation	1,815,235	1,420,826
Accrued incentive compensation	236,961	993,553
Cash held for others	8,046,429	4,301,041
Deferred revenue	1,883	1,883
Customer deposits	-	4,375
Due to related parties	1,903,545	-
Total current liabilities	<u>18,326,663</u>	<u>11,401,398</u>
Accrued bonus compensation - noncurrent	652,224	-
Distribution payable - unvested	314,874	-
Total liabilities	<u>19,293,761</u>	<u>11,401,398</u>
Members' equity:		
Members' equity	3,971,487	5,538,128
Noncontrolling interest	113,745	811,049
Total members' equity	<u>4,085,232</u>	<u>6,349,177</u>
Total liabilities and members' equity	<u>\$ 23,378,993</u>	<u>\$ 17,750,575</u>

See accompanying notes to consolidated financial statements.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues	<u>\$ 79,591,965</u>	<u>\$ 60,369,010</u>
Operating expenses:		
Commissions	30,842,697	23,081,276
Personnel	20,507,368	17,077,071
Other	4,738,677	3,471,485
Professional fees	3,265,207	2,114,449
Policy processing	242,831	209,430
Program printing	1,068,957	825,000
Software licensing	591,316	524,273
Occupancy	748,234	435,519
Software development	2,022,300	741,069
Depreciation and amortization	<u>440,080</u>	<u>371,927</u>
Total operating expenses	<u>64,467,667</u>	<u>48,851,499</u>
Operating income before stock based compensation	15,124,298	11,517,511
Stock based compensation	<u>188,894</u>	<u>107,643</u>
Operating income	14,935,404	11,409,868
Nonoperating income (expenses):		
Interest income	18,940	15,974
Miscellaneous income	1,490	-
Interest expense	(782)	(17,479)
Gain on sale of subsidiary	-	26,462
Guaranteed payment expense	<u>(100,000)</u>	<u>(200,001)</u>
Net nonoperating expenses	<u>(80,352)</u>	<u>(175,044)</u>
Net income	14,855,052	11,234,824
Less net income attributable to noncontrolling interest	<u>2,633,585</u>	<u>1,941,933</u>
Net income attributable to controlling interest	<u><u>\$ 12,221,467</u></u>	<u><u>\$ 9,292,891</u></u>

See accompanying notes to consolidated financial statements.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Statements of Changes in Members' Equity
Years Ended December 31, 2017 and 2016

	<u>Controlling Interest</u>	<u>Noncontrolling Interest</u>	<u>Total</u>
Balance, December 31, 2015	\$ 1,442,878	\$ 735,743	\$ 2,178,621
Member distributions	(5,305,284)	(1,866,627)	(7,171,911)
Stock based compensation	107,643	-	107,643
Net income	<u>9,292,891</u>	<u>1,941,933</u>	<u>11,234,824</u>
Balance, December 31, 2016	5,538,128	811,049	6,349,177
Member distributions	(13,977,002)	(3,330,889)	(17,307,891)
Stock based compensation	188,894	-	188,894
Net income	<u>12,221,467</u>	<u>2,633,585</u>	<u>14,855,052</u>
Balance, December 31, 2017	<u>\$ 3,971,487</u>	<u>\$ 113,745</u>	<u>\$ 4,085,232</u>

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Net income	\$ 14,855,052	\$ 11,234,824
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	875,618	444,636
Stock based compensation	188,894	107,643
Gain on sale of subsidiary	-	(25,458)
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	(1,266,332)	(1,040,358)
Other receivables	14,265	(29,167)
Other current assets	(549,758)	(144,521)
Due from related parties	(357,264)	-
Cash held for others	(3,745,388)	(280,026)
Other noncurrent assets	(416,116)	-
Increase (decrease) in operating liabilities:		
Accounts payable	99,771	241,576
Accrued interest expense	-	(12,730)
Other accrued expenses	940,902	30,642
Customer deposits	(4,375)	-
Commissions and fees payable	626,172	956,021
Accrued bonus compensation	1,046,632	750,855
Accrued incentive compensation	(756,592)	914,158
Accounts held for others	3,745,388	280,026
Net cash provided by operating activities	<u>15,296,869</u>	<u>13,428,121</u>
Cash flows from investing activities:		
Purchase of property and equipment	(445,097)	(396,694)
Additions to software development costs	(1,991,212)	(708,928)
Collections on installment notes receivable	14,850	65,400
Advance of notes receivable - related parties	(150,000)	(100,000)
Collections on notes from related parties	-	20,164
Net cash used in investing activities	<u>(2,571,459)</u>	<u>(1,120,058)</u>
Cash flows from financing activities:		
Distributions payable	1,903,545	-
Distributions payable - unvested	314,874	-
Distributions to members	(17,307,891)	(7,171,920)
Payments on notes to related parties	-	(1,527,624)
Payments on obligations under capital lease	(23,954)	(199,183)
Net cash used in financing activities	<u>(15,113,426)</u>	<u>(8,898,727)</u>
Net (decrease) increase in cash and cash equivalents	<u>(2,388,016)</u>	<u>3,409,336</u>
Cash and cash equivalents, beginning of year	<u>5,229,439</u>	<u>1,820,103</u>
Cash and cash equivalents, end of year	<u>\$ 2,841,423</u>	<u>\$ 5,229,439</u>

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

(Continued)

	<u>2017</u>	<u>2016</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 782</u>	<u>\$ 241,676</u>
Non-cash investing:		
Purchase of computer equipment and software through capital lease agreements:	<u>\$ -</u>	<u>\$ 117,644</u>

Notes to Consolidated Financial Statements

1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Insight Catastrophe Group, LLC and Subsidiaries (the Company) specializes in providing insurance portfolio management and risk advisory services. Serving the insurance and financial services industries, the Company is dedicated to assisting its clients in achieving superior risk-adjusted returns.

Insight Catastrophe Group, LLC (ICG) is the parent company and majority member of SageSure Insurance Managers LLC and sole member of Insight Catastrophe Managers, LLC (ICM). ICG conducts no significant business and has no employees.

SageSure Insurance Managers LLC (SIM), a limited liability company domiciled in the State of Florida, is the largest independent residential property Managing General Underwriter in the United States. SIM develops competitively-priced property insurance products for its highly-rated carrier partners and distributes these products through a growing network of insurance agents and brokers.

ICM provides property risk management consulting and proprietary risk management software. Their advanced financial analytics, catastrophe modeling tools and revolutionary policy management system provide clients with a comprehensive solution that includes real-time policy evaluation, financial metrics and capital management capabilities.

SIM operates under an Administrative & Technology Cost Sharing Agreement (the Agreement) with ICM. Under the terms of the Agreement, ICM will provide SIM with certain administrative and technology services and shared costs will be allocated in accordance with the Agreement.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of ICG, SIM and ICM (collectively referred to as the Company). The consolidated entities represent companies under common control. All significant intercompany balances and transactions have been eliminated in consolidation. The Company's consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

At December 31, 2017, the Company added a new line item to the accompanying consolidated balance sheet "accrued bonus compensation." As a result, at December 31, 2016, \$1,420,826 was reclassified from other accrued expenses to accrued bonus compensation in the accompanying consolidated balance.

The significant accounting policies followed by the Company are summarized below:

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. The Company's cash and cash equivalents are held at internationally recognized financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. In the normal course of business, the Company at times has deposits that exceed insured amounts. As of December 31, 2017, the Company had \$10,598,857 exceeding the FDIC deposit limit, including cash held for others. The Company has a concentration of credit risk since the deposits are in excess of the federally insured limit. The Company mitigates its exposure to losses from these cash deposits by monitoring the financial stability of the financial institutions involved.

Insight Catastrophe Group, LLC and Subsidiaries

Notes to Consolidated Financial Statements

Accounts Receivable - Accounts receivable balances are stated at the amount management expects to collect from outstanding balances and commissions earned. Management reviews receivables aged over 90 days for collectability and establishes a reserve if non-collection is considered probable. As of December 31, 2017 and 2016, the Company did not record an allowance for doubtful accounts. The Company, in general, does not require collateral when extending credit to customers.

Cash Held for Others - The Company maintains separate escrow accounts pending final settlement on behalf of certain customers. The customers have access to make deposits to the accounts. The Company returns premiums on behalf of the customers with their approval. Payments to the Company are made monthly from these accounts based on the calculated amounts due to the Company from each respective customer. The cash in these accounts is reported as cash held for others on the accompanying consolidated balance sheets and is offset by a corresponding liability.

Property and Equipment - Property and equipment are stated at cost less accumulated depreciation. Property and equipment are recorded at cost. Major renewals and improvements that extend the lives of property and equipment are capitalized, while maintenance and repairs are charged directly to expense as incurred. Upon the disposition of property and equipment, the cost of the asset and the associated accumulated depreciation and amortization is eliminated from the related accounts. Any resulting gain or loss is reported in the consolidated statements of operations.

Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

Furniture and fixtures	7-10 years
Office equipment and leasehold improvements	5-10 years
Computer equipment and office software	3-5 years

Software Development Costs - The Company internally develops software that is marketed to customers along with related software services, software licensing, and software hosting services as an application service provider. Costs incurred related to the development of software to be licensed prior to technological feasibility are expensed. Under GAAP, once the Company concludes that technological feasibility is obtained, all subsequent development costs are capitalized and reported at the lower of unamortized cost or net realizable value. Amortization is computed on an individual product basis over the estimated economic life of the product, generally three years, using the straight-line method. Costs incurred to maintain the software are expensed as incurred.

The Company evaluates the costs of each of its capitalized projects by comparing the net realizable value to unamortized cost for possible impairment. For the years ended December 31, 2017 and 2016, it was determined that impairment was not necessary.

Deferred Revenue - Amounts billed and received prior to the recognition of the related revenue are reflected as deferred revenue in the accompanying consolidated balance sheets.

Stock-Based Compensation - The Company accounts for stock based payments in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718, *Stock-Based Compensation*. Units are provided under the Company's equity-based compensation plan. Shares awarded are measured at the fair value on the grant date. Compensation expense is recognized over the vesting period of the units, with a corresponding increase in common units.

Revenue Recognition - The Company's commission and fee revenue is generated from program management services performed for customers. Commissions are recognized during the month that premiums are written net of refunds for policy cancellations and changes to the cancellation reserve. Profit sharing contingent commissions from customers are recognized when the commission amount is determined and acknowledged by the customer. The Company also offers specialized risk management consulting and software services performed for various customers. Fee income is recognized when these specialized services are rendered.

Insight Catastrophe Group, LLC and Subsidiaries

Notes to Consolidated Financial Statements

The Company has also established a reserve for cancellations, which is included in commissions and fees payable on the accompanying balance sheets. This liability includes estimates of future trends in cancellation frequency and other factors which could vary from actual results. Although it is not possible to measure the degree of variability inherent in such estimates, management believes the cancellation reserve is adequate.

Commissions and Policy Processing - Commissions revenue is recognized at the time of sale and commission expense is recognized when premiums are collected on behalf of the carriers. Policy processing fees are nonrefundable except in certain states where proration is required, as the fees are for a one-time service with no ongoing obligations associated for the corresponding policy period. Therefore, policy processing revenue and expense are recognized as earned and incurred.

Income Taxes - The Company is a limited liability company, the income from which is taxable to its individual members. Accordingly, the accompanying consolidated financial statements do not reflect a provision or liability for federal or state income taxes.

Fair Value of Financial Instruments

The carrying amounts of the Company's cash, accounts receivable, accounts payable and accrued expenses approximate fair value due to their short maturities. The carrying amount of notes receivable approximates fair value as the interest rate on the note is variable, approximating current market rates.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used. Estimates and assumptions are periodically reviewed, and the effects of any material revisions are reflected in the consolidated statements of operations in the period that they are deemed necessary.

Application of Recent and Future Accounting Standards

Revenue Recognition

Accounting Standards Update (ASU) 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers*, issued in May 2014 supersedes the revenue recognition requirements of Topic 605, *Revenue Recognition*, and most industry - specific guidance. ASU 2015-14, *Revenue from Contracts with Customers*, deferred the effective date for the Company for annual reporting periods beginning after December 15, 2018. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

Leases

In February 2016, the FASB issued an ASU 2016-02, *Leases*, intended to improve financial reporting about leasing transactions. The core principle of the guidance is that lessees will be required to recognize assets and liabilities on the balance sheet for all leases with terms of more than twelve months. A lessee would recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by the lessor is largely unchanged from current GAAP, with some targeted improvements. Disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In transition, both lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The amendments are effective for the Company for annual reporting periods beginning after December 15, 2019. The Company is currently assessing the impact that the recently issued accounting standard will have on the Company's consolidated financial statements.

Insight Catastrophe Group, LLC and Subsidiaries

Notes to Consolidated Financial Statements

Subsequent Events

The Company has evaluated subsequent events through June 14, 2017, the date the consolidated financial statements were available to be issued, and noted no items that would require adjustments to, or additional disclosures within, the consolidated financial statements.

2. Installment Note Receivable

The Company sold 100% of its interest in Insight Specialty Programs, LLC (ISP) in December 2011 to a related party for \$287,500. During the year ended December 31, 2012, ISP was transferred to an unrelated party. The Company initially recorded a deferred gain on the sale of ISP of \$286,160 and an installment note receivable of \$287,500, which were included on the accompanying consolidated balance sheets. The deferred gain is being recognized over the term of the accompanying installment note receivable. The Company will receive commissions from ISP, and the ultimate amount to be collected on the installment note receivable could change based on ISP's future revenues. The Company has no other continuing involvement with ISP.

The sale of ISP was financed by an installment note receivable for \$287,500. This note required quarterly principal payments of \$16,350 plus 5% interest beginning March 31, 2012 through December 31, 2013. On March 31, 2014, the outstanding balance of the note was subject to positive or negative adjustment based on ISP's total revenue for 2012 and 2013. After such adjustment, the outstanding principal balance plus 5% interest is due in 12 equal quarterly installments that began March 31, 2014. The note is also subject to adjustment if ISP's annual revenue falls below a prescribed amount. As of December 31, 2017, the installment note was paid in full. The outstanding balance of the installment note receivable as of December 31, 2016 was \$14,850, and was included in the accompanying consolidated balance sheets.

3. Property and Equipment

Major classifications of property and equipment are summarized as follows for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Computer equipment	\$ 1,814,824	\$ 1,780,261
Leasehold improvements	276,462	241,255
Software – office	242,370	191,896
Furniture and fixtures	261,955	187,886
Office equipment	<u>29,723</u>	<u>28,952</u>
	2,625,334	2,430,250
Less accumulated depreciation	<u>1,406,402</u>	<u>1,216,335</u>
Property and equipment, net, end of year	<u>\$ 1,218,932</u>	<u>\$ 1,213,915</u>

Depreciation expense was \$440,080 and \$371,927 for the years ended December 31, 2017 and 2016, respectively.

4. Software Development Costs

Capitalized software development costs included in the accompanying consolidated balance sheets as of December 31:

	<u>2017</u>	<u>2015</u>
Software development costs	\$ 7,290,049	\$ 5,298,837
Less accumulated amortization	<u>4,950,155</u>	<u>4,514,617</u>
Net capitalized software development costs, end of year	<u>\$ 2,339,894</u>	<u>\$ 784,220</u>

Amortization expense was \$435,538 and \$72,709 for the years ended December 31, 2017 and 2016. The Company evaluates the costs of each of its capitalized projects by comparing the net realizable value to unamortized cost to determine if a write-down is necessary.

5. Related Party Transactions

At December 31, 2017 and 2016, the Company had receivables from related parties of \$15,414 and \$5,343 included in other noncurrent assets in the accompanying consolidated balance sheets. These amounts have no set repayment terms or interest. At December 31, 2017 and 2016, the Company held receivables from employees of \$5,108 and \$24,295, respectively, included in other current assets on the accompanying consolidated balance sheets.

At December 31, 2017, the Company had current receivables from related parties of \$357,264. The Company had distributions payable to members of \$1,903,545, recorded as due to related parties on the accompanying consolidated balance sheets.

Four promissory notes in the principal amount totaling \$699,999 have been executed by SIM. Three of the promissory notes were between SIM and the related parties. The additional promissory note was between SIM and a member of SIM. Each note matures the earlier of 1) January 1, 2025 (three promissory notes) and October 12, 2027 (additional promissory note), 2) the day immediately prior to the date that SIM or any of its subsidiaries files an initial registration statement for an initial public offering, 3) the date of which the makers of the notes employment with SIM or its affiliates terminates, or 4) the sale of all or substantially all of the equity securities or assets of SIM. Interest accrues at 1.75% compounded semi-annually and is due and payable on the maturity date. The principal and interest balances of the notes outstanding as of December 31, 2017 and 2016 totaled \$732,579 and \$621,277, respectively, and are included in notes receivable – related parties on the accompanying balance sheet. No principal or interest was collected on the SIM notes during the years ended December 31, 2017 and 2016.

Three promissory notes in the principal amount totaling \$250,001 have been executed by ICM. All three promissory notes were between ICM and related parties and mature on the earlier of 1) January 1, 2025, July 12, 2026, and October 12, 2027, respectively, 2) the day immediately prior to the date that ICM or any of its subsidiaries files an initial registration statement for an initial public offering, 3) the date of which the makers of the notes employment with ICM or its affiliates terminates, or 4) the sale of all or substantially all of the equity securities or assets of ICM. Interest accrues at 1.75% compounded semi-annually and is due and payable on the maturity date. The principal and interest balances of the notes outstanding as of December 31, 2017 and 2016 totaled \$237,331 and \$183,906, respectively, and are included in notes receivable – related parties on the accompanying balance sheet. Principal and interest of \$15,454 and \$4,710 was collected on one ICM promissory note during the years ended December 31, 2017 and 2016, respectively.

Long-Term Incentive Plan

The Company has long-term incentive plan (LTIP) agreements with certain key senior level employees. Eligible employees are determined and approved by executive management. Grants are made at management's discretion based on analysis of market compensation, actual performance and long-term retention goals for specific employees.

2013 LTIP

Units were granted for the plan year and are based on revenue targets set for the grant period. Final unit value is predicated on how well the Company performs against cumulative revenue and margin targets over a four-year performance period. Payout occurs as follows:

- 25% vesting and payout at end of the performance cycle
- 25% vesting and payout one year after the end of the performance cycle
- 25% vesting and payout two years after the end of the performance cycle
- 25% vesting and payout three years after the end of the performance cycle

The final disbursements related to the 2013 LTIP plan were made in 2017.

2014-2017 LTIP

The LTIP Pool is based on Total Value created for the Company for the four-year performance period. LTIP value is based on Operating Income and Profit Sharing. Unit grants are based 16 complete quarters and units are awarded to eligible employees based on 1/16 per eligible complete quarters of employment times their allocated units for their paygrade. The payout schedule begins after the four-year performance period results are approved. Payout occurs as follows:

- 60% on or before March 15, 2018
- 20% on January 2, 2019
- 20% on January 2, 2020

The value of units vested at December 31, 2017 and 2016, was \$1,083,463 and \$993,544 respectively, and is included in accrued incentive compensation in the accompanying consolidated balance sheets.

Incentive compensation expense for the years ended December 31, 2017 and 2016, was \$209,639 and \$993,544, respectively, and is included in personnel expenses in the accompanying consolidated statements of operations.

7. Members' Equity

On January 1, 2015, SIM's membership executed an operating agreement which authorized 20,000 zero-par-value membership units for issuance. 10,000 of these units were authorized for issuance as Common Units. 8,090 Common Units are held by ICG and represents an 80.9% equity position in SIM. 1,910 shares are held by a member and represents a 19.1% equity position in SIM. The aforementioned member is also an employee of SIM, and the Common Units are subject to vesting requirements which are further discussed in footnote 8 (Stock-Based Compensation).

SIM maintains the right to repurchase the member's units in the event of termination, and the member maintains a right to transfer the units in the case that ICG opts to not repurchase them. If ICG chooses to purchase the units upon the member's termination, a redemption price will be determined based upon SIM's fair value, at the time of termination, at a price determined by an independent party.

Insight Catastrophe Group, LLC and Subsidiaries

Notes to Consolidated Financial Statements

In accordance with the terms of SIM's operating agreement, distributions are made to members in an amount sufficient to cover the tax liability associated with the taxable income allocated to each member. These tax allocations are treated as advances against ordinary course distributions. Ordinary course distributions will be made first to the Common Unit holder to the extent of any accrued but unpaid preferred return earned on the preferred capital contribution of 5% over the 10-year treasury rate; next to the Common Unit holder to the extent of any unpaid preferred capital contribution amount of \$4,500,000; next to the members in accordance with their respective ownership percentages. As of December 31, 2016, all non-pro-rata distribution requirements were satisfied and all future distributions will be made in accordance with the terms of the operating agreement.

All Common Units have equal rights and profits (losses) are allocated pro-rata based on ownership percentage. Membership units are generally non-transferrable except under very specific circumstances.

8. Stock-Based Compensation

As discussed in footnote 7 (Members' Equity), the Company issued 10,000 Common Units effective January 1, 2015, of which 1,910 were granted to a noncontrolling interest. Of the total Common Units issued to the noncontrolling interest, 1,143 vested upon issuance with the remaining 767 Common Units vesting ratably over a period of 114 months. Vesting may be accelerated during any given year, should certain operating thresholds be met.

The Company used a fair value method that encompassed an income approach to determine the fair value of SIM and a discounted cash flows approach for evaluating ongoing operations. Compensation expense related to the vesting of Common Units is based on a \$891 fair market value of each Common Unit as of December 31, 2014.

Compensation expense of \$188,894 and \$107,643 was recognized for the years ended December 31, 2017 and 2016, respectively, and is included in the accompanying statement of changes in members' equity. No units have been forfeited as of December 31, 2017. Due to certain requirement's being met during 2017, 25% of the additional units vested as of December 31, 2017. If additional requirements are met, additional units will vest based on the Vesting Schedule. A summary of the Common Unit activity for the year ended December 31, 2017 is as follows:

Outstanding Common Units at December 31, 2016	1,910
Vested Common Units at December 31, 2016	1,304
Vested in 2017	<u>212</u>
Vested Common Units at December 31, 2017	1,516
Nonvested Units at December 31, 2017	394

The Company expects to recognize stock based compensation expense of \$350,800 associated with the vesting of nonvested Common Units through the year ended December 31, 2024.

9. Compensated Absences

Employees of the Company are entitled to paid vacation, paid sick leave, and personal days off. Compensated absences earned during the year are eligible for payout upon termination, while any compensated absences carried over from prior years are not eligible for payout. Therefore, no compensated absences are eligible for future payout at December 31 of any year. Additionally, all employees of the Company are compensated on a salary basis. Management considers that, for these reasons, an accrual for compensated absences is not considered necessary.

10. Defined Contribution Plan

The Company sponsors a profit-sharing and 401(k) deferred compensation employee benefit plan (the Plan). Employees are eligible to participate in the Plan after attaining the age of 21 and 3 months of service with the Company. The Company contributes amounts to the Plan based upon a Safe Harbor Matching policy and also may decide each plan year whether to make a discretionary, non-elective employer contribution on behalf of eligible, active participants. Expense recognized as matching contributions was \$370,762 and \$305,928 in 2017 and 2016, respectively. There were no discretionary contributions made to the Plan during the years ended December 31, 2017 and 2016.

11. Leases

The Company leases various office facilities in Florida, Texas, Connecticut, and New Jersey that expire at various times through 2025. Total rent expense and common charges under the operating leases was \$662,285 and \$435,520 for the years ended December 31, 2017 and 2016, respectively.

At December 31, 2017, the future minimum lease payments required under non-cancellable operating leases are presented as follows:

	Operating Leases
2018	\$ 944,271
2019	922,210
2020	929,860
2021	937,589
2022	933,368
Thereafter	<u>2,733,869</u>
Total minimum lease payments	<u>\$ 7,401,167</u>

The Company leased computer equipment and software under capital lease agreements that expired in 2017.

Depreciation and amortization expense related to capital leases was \$145,181 and \$146,122 for the years ended December 31, 2017 and 2016, respectively.

12. Information About Financial Instruments with Off Balance Sheet Risk, and Significant Customers

Accounts receivable of approximately 99% and 100% were due from one customer at December 31, 2017 and 2016, respectively. This customer accounted for approximately 97% and 98% of revenues derived from program management services for the years ended December 31, 2017 and 2016, respectively.

Supplementary Information

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Balance Sheets
December 31, 2017

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 5,189	\$ 2,129,267	\$ 706,967	\$ -	\$ 2,841,423
Accounts receivable	-	6,069,602	-	-	6,069,602
Other current assets	-	333,623	538,855	-	872,478
Due from related parties	2,013,733	205,879	52,765	(1,915,113)	357,264
Cash held for others	-	8,046,429	-	-	8,046,429
Total current assets	<u>2,018,922</u>	<u>16,784,800</u>	<u>1,298,587</u>	<u>(1,915,113)</u>	<u>18,187,196</u>
Software development costs, net	-	-	2,339,894	-	2,339,894
Property and equipment, net	-	270,757	948,175	-	1,218,932
Investment in subsidiaries	3,422,104	-	-	(3,422,104)	-
Notes receivable - related parties	-	732,579	237,331	-	969,910
Other noncurrent assets	-	69,812	593,249	-	663,061
Total assets	<u>\$ 5,441,026</u>	<u>\$ 17,857,948</u>	<u>\$ 5,417,236</u>	<u>\$ (5,337,217)</u>	<u>\$ 23,378,993</u>

See independent auditors' report on supplementary information.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Balance Sheets
December 31, 2017

(Continued)

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
LIABILITIES AND MEMBERS' EQUITY					
Current liabilities:					
Accounts payable	\$ 5,800	\$ 802,939	\$ 548,319	\$ -	\$ 1,357,058
Commissions and fees payable	-	3,577,034	-	-	3,577,034
Other accrued expenses	-	308,313	1,080,205	-	1,388,518
Accrued bonus compensation	-	968,733	846,502	-	1,815,235
Accrued incentive compensation	-	236,961	-	-	236,961
Cash held for others	-	8,046,429	-	-	8,046,429
Deferred revenue	-	-	1,883	-	1,883
Distributions payable	1,463,739	2,354,919	-	(1,915,113)	1,903,545
Total current liabilities	1,469,539	16,295,328	2,476,909	(1,915,113)	18,326,663
Accrued bonus compensation	-	652,224	-	-	652,224
Distribution payable - unvested	-	314,874	-	-	314,874
Total liabilities	\$ 1,469,539	\$ 17,262,426	\$ 2,476,909	\$ (1,915,113)	\$ 19,293,761
Members' equity:					
Members' equity	3,971,487	481,777	2,940,327	(3,422,104)	3,971,487
Noncontrolling interest	-	113,745	-	-	113,745
Total members' equity	3,971,487	595,522	2,940,327	(3,422,104)	4,085,232
Total liabilities and members' equity	\$ 5,441,026	\$ 17,857,948	\$ 5,417,236	\$ (5,337,217)	\$ 23,378,993

See independent auditors' report on supplementary information.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Balance Sheets
December 31, 2016

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 444,666	\$ 3,347,141	\$ 1,437,632	\$ -	\$ 5,229,439
Accounts receivable	16,739	4,407,971	378,560	-	4,803,270
Current portion of installment note receivable	14,850	-	-	-	14,850
Other receivables	-	18,145	10,847	-	28,992
Other current assets	-	105,712	217,008	-	322,720
Due from related parties	-	644,067	-	(644,067)	-
Cash held for others	-	4,301,041	-	-	4,301,041
Total current assets	476,255	12,824,077	2,044,047	(644,067)	14,700,312
Software development costs, net	-	-	784,220	-	784,220
Property and equipment, net	-	109,474	1,104,441	-	1,213,915
Noncurrent assets:					
Investment in subsidiaries	5,061,864	-	-	(5,061,864)	-
Notes receivable - related parties	-	621,277	183,906	-	805,183
Other noncurrent assets	9	9,630	237,306	-	246,945
Total other assets	5,061,873	630,907	421,212	(5,061,864)	1,052,128
Total assets	<u>\$ 5,538,128</u>	<u>\$ 13,564,458</u>	<u>\$ 4,353,920</u>	<u>\$ (5,705,931)</u>	<u>\$ 17,750,575</u>

See independent auditors' report on supplementary information.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Balance Sheets
December 31, 2016

(Continued)

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
LIABILITIES AND MEMBERS' EQUITY					
Current Liabilities:					
Obligation under capital lease, current portion	\$ -	\$ -	\$ 23,954	\$ -	\$ 23,954
Accounts payable	-	818,779	438,508	-	1,257,287
Commissions and fees payable	-	2,950,862	-	-	2,950,862
Other accrued expenses	-	210,873	236,743	-	447,616
Accrued bonus compensation	-	749,941	670,886	-	1,420,827
Accrued incentive compensation	-	286,634	706,919	-	993,553
Customer deposits	-	-	4,375	-	4,375
Cash held for others	-	4,301,041	-	-	4,301,041
Deferred revenue	-	-	1,883	-	1,883
Due to affiliates	-	-	644,067	(644,067)	-
Total liabilities	-	9,318,130	2,727,335	(644,067)	11,401,398
Members' equity:					
Members' equity	5,538,128	3,435,279	1,626,585	(5,061,864)	5,538,128
Noncontrolling interests	-	811,049	-	-	811,049
Total members' equity	5,538,128	4,246,328	1,626,585	(5,061,864)	6,349,177
Total liabilities and members' equity	<u>\$ 5,538,128</u>	<u>\$ 13,564,458</u>	<u>\$ 4,353,920</u>	<u>\$ (5,705,931)</u>	<u>\$ 17,750,575</u>

See independent auditors' report on supplementary information.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Statements of Operations
Year Ended December 31, 2017

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
Operating revenues	\$ -	\$ 76,941,711	2,650,254	\$ -	\$ 79,591,965
Operating expenses:					
Commissions	-	30,842,697	-	-	30,842,697
Personnel	-	19,701,497	805,871	-	20,507,368
Other	42,544	4,534,819	161,314.00	-	4,738,677
Professional fees	(2,046)	3,216,030	51,223	-	3,265,207
Policy processing	-	242,831	-	-	242,831
Program printing	-	1,068,957	-	-	1,068,957
Software licensing	-	584,966	6,350	-	591,316
Occupancy	-	697,723	50,511.00	-	748,234
Software development	-	1,871,507	150,793	-	2,022,300
Depreciation and amortization	-	407,712	32,368	-	440,080
Total operating expenses	40,498	63,168,739	1,258,430	-	64,467,667
Operating income (loss) before stock based compensation	(40,498)	13,772,972	1,391,824	-	15,124,298
Stock based compensation	-	188,894	-	-	188,894
Operating income (loss)	(40,498)	13,584,078	1,391,824	-	14,935,404
Nonoperating income (expenses):					
Interest income	84	15,432	3,424.00	-	18,940
Miscellaneous income	1,490	-	-	-	1,490
Interest expense	-	-	(782)	-	(782)
Guaranteed payment expense	(100,000)	-	-	-	(100,000)
Equity in earnings of subsidiaries	12,360,391	-	-	(12,360,391)	-
Net nonoperating income (expenses)	12,261,965	15,432	2,642	(12,360,391)	(80,352)
Net income	12,221,467	13,599,510	1,394,466	(12,360,391)	14,855,052
Less net income attributable to noncontrolling interest	-	2,633,585	-	-	2,633,585
Net income attributable to controlling interest	\$ 12,221,467	\$ 10,965,925	\$ 1,394,466	\$ (12,360,391)	\$ 12,221,467

See independent auditors' report on supplementary information.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Statements of Operations
Year Ended December 31, 2016

(Continued)

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
Operating revenues	\$ -	\$ 57,641,689	\$ 2,727,321	\$ -	\$ 60,369,010
Operating expenses:					
Commissions	-	23,081,276	-	-	23,081,276
Personnel	-	15,992,627	1,084,444	-	17,077,071
Other	63,082	3,277,535	130,868	-	3,471,485
Professional fees	3,184	2,092,907	18,358	-	2,114,449
Policy processing	-	209,430	-	-	209,430
Program printing	-	825,000	-	-	825,000
Software licensing	-	519,520	4,753	-	524,273
Occupancy	-	415,558	19,961	-	435,519
Software development	-	667,826	73,243	-	741,069
Depreciation and amortization	-	333,660	38,267	-	371,927
Total operating expenses	66,266	47,415,339	1,369,894	-	48,851,499
Operating income (loss) before stock based compensation	(66,266)	10,226,350	1,357,427	-	11,517,511
Stock based compensation	-	107,643	-	-	107,643
Operating income (loss)	(66,266)	10,118,707	1,357,427	-	11,409,868
Nonoperating income (expenses):					
Interest income	2,781	10,731	2,462	-	15,974
Interest expense	(6,550)	-	(10,929)	-	(17,479)
Gain on sale of subsidiary	26,462	-	-	-	26,462
Guaranteed payment income	69,887	-	-	(69,887)	-
Guaranteed payment expense	(200,000)	(69,888)	-	69,887	(200,001)
Equity in earnings of subsidiaries	9,466,577	-	-	(9,466,577)	-
Net nonoperating income (expenses)	9,359,157	(59,157)	(8,467)	(9,466,577)	(175,044)
Net income	9,292,891	10,059,550	1,348,960	(9,466,577)	11,234,824
Less net income attributable to noncontrolling interest	-	1,941,933	-	-	1,941,933
Net income attributable to controlling interest	\$ 9,292,891	\$ 8,117,617	\$ 1,348,960	\$ (9,466,577)	\$ 9,292,891

See independent auditors' report on supplementary information.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Statements of Changes in Members' Equity
Years Ended December 31, 2017 and 2016

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC		Insight Catastrophe Managers, LLC	Eliminations	Consolidated
		Controlling Interest	Noncontrolling Interest			
Balance, December 31, 2015	\$ 1,442,878	\$ 3,116,313	\$ 735,743	\$ 586,378	\$ (3,702,691)	\$ 2,178,621
Transfers in (out)	308,753	-	-	(308,753)	-	-
Member distributions	(5,506,394)	(7,906,294)	(1,866,627)	-	8,107,404	(7,171,911)
Stock based compensation	-	107,643	-	-	-	107,643
Net income	9,292,891	8,117,617	1,941,933	1,348,960	(9,466,577)	11,234,824
Balance, December 31, 2016	5,538,128	3,435,279	811,049	1,626,585	(5,061,864)	6,349,177
Transfers in (out)	80,724	-	-	(80,724)	-	-
Member distributions	(13,868,832)	(14,108,321)	(3,330,889)	-	14,000,151	(17,307,891)
Stock based compensation	-	188,894	-	-	-	188,894
Net income	12,221,467	10,965,925	2,633,585	1,394,466	(12,360,391)	14,855,052
Balance, December 31, 2017	<u>\$ 3,971,487</u>	<u>\$ 481,777</u>	<u>\$ 113,745</u>	<u>\$ 2,940,327</u>	<u>\$ (3,422,104)</u>	<u>\$ 4,085,232</u>

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